

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 04-0476**

**PREPARED REBUTTAL TESTIMONY OF**

**BRIAN W. BLACKBURN**

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**ILLINOIS COMMERCE COMMISSION****DOCKET NO. 04-0476****PREPARED REBUTTAL TESTIMONY OF BRIAN W. BLACKBURN****I. WITNESS INTRODUCTION AND PURPOSE**

1  
2 1. Q. Please state your name and business address.

3 A. Brian W. Blackburn, 500 South 27<sup>th</sup> St., Decatur, Illinois 62521.

4 2. Q. Are you the same Brian W. Blackburn who submitted direct testimony in  
5 this case?

6 A. Yes.

7 3. Q. What is the purpose of your rebuttal testimony?

8 A. I will address certain issues raised by Staff witness Mr. Charles C. S.  
9 Iannello, CNE-Gas witnesses Ms. Juliana Claussen and Mr. Troy Monroe,  
10 and IIEC witnesses Mr. John Mallinckrodt and Dr. Alan Rosenberg.

**II. RESPONSE TO STAFF WITNESS IANNELLO****A. ITEMS OF AGREEMENT**

13 4. Q. Have you reviewed Mr. Iannello's testimony?

14 A. Yes. It appears to me that Staff and AmerenIP are in agreement on most  
15 transportation-related issues. Generally speaking, Staff accepts  
16 AmerenIP's daily imbalance and daily cash out proposals, subject to  
17 certain modifications, including expanded daily tolerances and the  
18 requirements that AmerenIP puts in place electronic meter reading and  
19 communication equipment and implements a group balancing tariff.

20 AmerenIP is agreeable to all three modifications subject to its  
21 transportation rate design proposals, as modified, being accepted.

22 5. Q. Will AmerenIP incorporate Mr. Iannello's recommended daily imbalance  
23 cashout schedule as presented on lines 858 to 870 of his testimony?

24 A. Generally, yes. However, AmerenIP further proposes that accumulated  
25 imbalances within the 20% deadband proposed by Mr. Iannello will be  
26 cashed out at the end of the billing period. Please see IP Exhibit 8.9 for  
27 the revised proposed SC 76 reflecting this change.

28 6. Q. Mr. Iannello recommends that AmerenIP include language explicitly  
29 stating the method for calculating the Best Efforts Gas Cost and describing  
30 the treatment of all costs and revenues associated with the service. Will  
31 AmerenIP make this proposed change?

32 A. Yes. Ameren IP proposes the following statement be incorporated in the  
33 definition of Best Efforts Gas Cost: "The Best Efforts Gas Cost shall not  
34 be less than the prevailing market price of natural gas for the period BEGS  
35 is requested. Any difference between the Best Efforts Gas Cost and the  
36 actual cost paid to acquire the gas supply shall be credited to Rider A and  
37 Rider B." Please see IP Exhibit 8.9 for the revised proposed SC 76  
38 reflecting this change.

39 7. Q. Mr. Iannello recommends that AmerenIP install appropriate metering and  
40 communication equipment at the customer's site to record daily usage and  
41 make that usage data available electronically to the customer, agent and/or

42 suppliers within one to two days after it is recorded. Will AmerenIP  
43 install this equipment?

44 A. Yes. AmerenIP proposes installing such equipment for all SC 65, SC 66,  
45 SC 76, and Rider OT customers. This equipment will record and  
46 communicate daily metering data in the same manner currently provided  
47 by AmerenCIPS. AmerenIP witness Karen Althoff provides information  
48 on the costs associated with the metering and communication equipment.

49 8. Q. Mr. Iannello recommends that AmerenIP implement a group balancing  
50 tariff that would allow suppliers or agents representing multiple  
51 transporting customers to group together customer accounts for the  
52 purpose of nominating gas, managing storage banks, and balancing  
53 deliveries with usage. He further recommends using AmerenCIPS' Rider  
54 G as a model for this tariff. Will AmerenIP implement such a tariff?

55 A. Yes. Ameren witness Dottie Anderson addresses this topic in her rebuttal  
56 testimony.

57 9. Q. Mr. Iannello recommends that the proposed administrative costs  
58 associated with transportation services be allocated to all customers  
59 eligible for transportation service. Will AmerenIP make this change?

60 A. Yes. AmerenIP witness Leonard Jones addresses the associated rate  
61 changes.

62 10. Q. Mr. Iannello recommends that AmerenIP propose tariff language that  
63 clarifies the price to be used to cash out imbalances for SC 76 and Rider  
64 OT. Will AmerenIP make this change?

65           A.     Yes. AmerenIP proposes to add the following language to the Definition  
66                   of Tariff Terms in the Standard Terms and Conditions: “Monthly Average  
67                   Adjusted Chicago Citygate Price means the mean of the daily Adjusted  
68                   Chicago Citygate Prices for the applicable billing period.” Monthly SC 76  
69                   imbalances and Rider OT over-nomination imbalances will be cashed out  
70                   using this Monthly Average Adjusted Chicago Citygate Price. Please see  
71                   IP Exhibit 8.9 for the revised proposed SC 76 and Rider OT reflecting  
72                   these changes.

73    11.    Q.     Mr. Iannello observes that the proposed definition of BEGS should refer to  
74                   Section 5 instead of Section 6 in the proposed SC 76. Do you agree?

75           A.     Yes. AmerenIP will correct this error. Please see IP Exhibit 8.9.

76    12.    Q.     Mr. Iannello observes that AmerenIP’s proposed tariffs use the term  
77                   “delivery” while other Illinois utility tariffs use the term “usage” for the  
78                   same purpose. Will AmerenIP change this term to be consistent with  
79                   other utilities?

80           A.     Yes. In addition, AmerenIP proposes several other changes to its  
81                   proposed language to be consistent with terminology used by other  
82                   Ameren utilities. AmerenIP proposes to change “Facilities Charge” to  
83                   “Customer Charge”, “Customer-Supplied” to “Customer-Owned”,  
84                   “Electronic Metering Equipment Fee” to “Facilities Charge”, “Storage  
85                   Account” to “Bank”, and in some cases, “Nomination” to “Deliveries”.  
86                   Please see IP Exhibits 8.7, 8.8, and 8.9 for the proposed changes.

87                   **B. CRITICAL DAY IMBALANCE CHARGE**

88 13. Q. Do you disagree with any of Mr. Iannello's recommendations?

89 A. Yes. Mr. Iannello suggests that AmerenIP assess Critical Day Imbalance  
90 Charges (CDIC) based on aggregate SC 76 imbalances, and suggests  
91 specific tariff language to implement this recommendation. I believe that  
92 Mr. Iannello's suggestion places a disproportionate responsibility for such  
93 charges on AmerenIP and its PGA customers.

94 14. Q. On lines 682 – 694 of his testimony, Mr. Iannello describes the application  
95 of the CDIC. Are any clarifications necessary?

96 A. Yes. Mr. Iannello incorrectly describes the CDIC as applying on days  
97 when imbalance penalties or fees are assessed to AmerenIP by interstate  
98 pipelines. In fact, AmerenIP has proposed that the CDIC only apply on  
99 Critical Days declared by AmerenIP. As I mentioned in my direct  
100 testimony, AmerenIP last declared a Critical Day in March of 1996, so this  
101 is not a frequent occurrence.

102 15. Q. Mr. Iannello expresses concern that the CDIC will be applied to individual  
103 SC 76 customers, in contrast with the application of the CDIC to sales  
104 customers as a group. Is his concern warranted?

105 A. No. Again, the CDIC applies only on a Critical Day, and on a Critical  
106 Day the issue of utmost concern is that of sufficient supply and ensuring  
107 the operation of the system. Each entity responsible for providing supplies  
108 to the distribution system must have an incentive to provide sufficient  
109 supply to cover the usage for which it is responsible. AmerenIP and its

110 PGA customers should have no more or no less incentive to provide  
111 sufficient supply than any other nominating entity.

112 Consider this hypothetical example : an SC 76 Customer A (or  
113 Supplier Group A) uses 1,000 more MMBtu than it nominated, another  
114 SC 76 Customer B (or Supplier Group B) uses 1,000 MMBtu less than it  
115 nominated, and AmerenIP uses 1,000 more MMBtu than it nominated, to  
116 serve PGA customers. The net usage on the AmerenIP system is therefore  
117 1,000 MMBtu more than the total nominated. Further assume that both  
118 the interstate pipelines and AmerenIP have declared a Critical Day and the  
119 interstate pipelines have assessed penalties for this excess usage. Under  
120 Mr. Iannello's recommendation, Customer A (or Group A) is assessed no  
121 penalty because its imbalance is netted against Customer B's (or Group  
122 B's) imbalance. AmerenIP and its PGA customers are responsible for the  
123 full penalty even though as a group they were no more responsible for the  
124 penalties than Customer A (or Group A). In contrast, under AmerenIP's  
125 proposed SC 76, Customer A (or Group A) and AmerenIP are each  
126 responsible for half of the penalties because each contributed equally to  
127 the penalty. This is appropriate because in this situation AmerenIP is not  
128 unique from other nominating entities and has no greater responsibility to  
129 cover its expected usage than any other party delivering supplies to the  
130 AmerenIP's distribution system.

131 Further, the Commission should be cognizant of AmerenIP's  
132 conditional acceptance of Mr. Iannello's recommendation to implement a



supplier aggregation (group balancing) tariff. The CDIC would apply only to those customer groups (e.g. the customers of a particular supplier) delivering gas to AmerenIP's system and these entities would presumably be able to take advantage of any diversity among individual customers.

Finally, AmerenIP has proposed that it have the ability to declare a Critical Day for specific areas of its system. Under this provision, it is not possible to net the imbalances of all SC 76 customers because not all SC 76 customers would be affected by a Critical Day declared for a specific area.

On balance, AmerenIP believes that its proposal better balances the diverse interests of all stakeholders than does Staff's proposal.

### **C. ITEMS OF CLARIFICATION**

16. Q. Does Mr. Iannello make any other statements that warrant further clarification?

A. Yes. Mr. Iannello characterizes the current Firm Gas Service as one that may help mitigate daily imbalances. This is not correct. Firm Gas Service is simply a source of firm supply provided by AmerenIP that must be nominated like any other supply source and carries no balancing provisions.

Additionally, Mr. Iannello states "Daily usage information is not available to customers, agents, or suppliers, in a timely fashion or useful form. In fact, it is my understanding that daily usage is not even provided in the Company's bill." This is not correct. Daily usage is provided in

AmerenIP's bill to transportation customers. Further, daily usage information is, and will continue to be, available to customers, agents or suppliers via pulse retransmittal or remote interrogation in any time frame a customer wishes. These options are offered in addition to AmerenIP's conditional agreement to provide daily metering data within one to two days via the internet in the same manner as AmerenCIPS and AmerenCILCO currently do.

### **III. RESPONSE TO CNE-GAS WITNESS CLAUSSEN**

#### **A. ITEMS OF AGREEMENT**

17. Q. Ms. Claussen recommends implementation of a pooling tariff similar to that of AmerenCIPS. Will AmerenIP agree to make this change?

A. Yes. As I stated earlier, Ameren witness Anderson describes the proposed tariff in her testimony.

18. Q. Ms. Claussen recommends installation of daily metering and communication equipment to provide daily metering information, similar to the equipment AmerenCIPS has installed, at AmerenIP's expense. Will AmerenIP agree to provide this equipment and to communicate the information in a manner consistent with AmerenCIPS?

A. Yes. AmerenIP proposes installing the necessary metering and communication equipment for all SC 65, SC 66, SC 76, and Rider OT customers. That equipment will record and communicate daily metering data in the same manner as AmerenCIPS and AmerenCILCO currently provide. However, although there will be no up-front charges for this

equipment, customers for whom this equipment is installed will be assessed a monthly fee to recover the costs of this equipment and its associated maintenance, consistent with the practice of AmerenCIPS. AmerenIP witness Althoff provides information on the costs associated with the metering and communication equipment and AmerenIP witness Jones identifies the proposed fee.

### **B. BANKING SERVICE**

19. Q. Ms. Claussen recommends the implementation of a banking service similar to that of AmerenCIPS. Will AmerenIP agree to this recommendation?

A. No. AmerenIP will not offer an explicit banking service; however, it is likely that AmerenIP is offering comparable or related services that satisfy Ms. Claussen's concerns. AmerenIP has agreed to several changes to its original proposal that mitigate the purported need for a banking service including 1) implementation of a supplier aggregation service similar to AmerenCIPS' Rider G; 2) expanded daily tolerances; 3) reduced daily imbalance penalties; 4) monthly cashout of accumulated daily imbalances of less than 20%; and 5) installation of equipment to measure and communicate daily metering information similar to that provided by AmerenCIPS and AmerenCILCO. These are in addition to AmerenIP's previous proposal to allow nomination changes within the current gas day.

Notably, Ms. Claussen recommends a banking service for SC 76 customers, but she does not recommend a commensurate allocation of

storage costs to provide this service. It is inappropriate to provide a banking service without an appropriate allocation of storage costs, assuming such storage capacity were even available.

**C. TREATMENT OF PAST-DUE PAYMENTS**

20. Q. Ms. Claussen suggests that AmerenIP elect the option provided in Part 280.90(a) wherein AmerenIP would consider a payment past due only if the postmark of the payment is after the due date. Will AmerenIP agree to this proposal?

A. No. Part 280.90(b) states “Each utility shall choose one of the above methods for determining when a bill is past due and shall apply this method to all customers.” AmerenIP has elected to use the method that requires payment received in the mail within two days following the due date to be considered on time (not past due), as it is entitled to do under Part 280.90(b). Changing to the other method for all customers, as required by Part 280.90(b), would result in significant added administrative expense and costs for changes to billing systems. Further, AmerenIP would need to document and/or store the postmarks on hundreds of thousands of envelopes sent to AmerenIP each month. AmerenIP would be required to reprogram its billing system. Finally, many payments would likely be made to AmerenIP later, slowing cash flow and affecting the results of the lead/lag studies. Such additional expenses are unnecessary and burdensome to AmerenIP and to other customers who choose to pay by the due date.

225 21. Q. Ms. Claussen states that with a change to the postmark method customers  
226 “would not be exposed to potential delays in delivery of mail that are  
227 beyond the control of the customer”. Do customers have payment options  
228 other than by mail that would not expose them to the potential of such  
229 delays?

230 A. Yes. Any customer may elect to pay its bills via an electronic funds  
231 transfer, to pay electronically via the internet, to pay from a financial  
232 account or by credit card over the phone, or to pay in person at a payment  
233 center.

234 22. Q. Ms. Claussen further suggests that the 1½% late fee be prorated for the  
235 actual number of days late instead of the full 1½% being assessed if the  
236 payment is late. Is AmerenIP’s practice different from other Illinois  
237 utilities?

238 A. No. Other Illinois utilities’ practices are the same as AmerenIP’s,  
239 including AmerenCIPS, AmerenCILCO, Commonwealth Edison, Peoples  
240 Energy and Nicor Gas.

241 23. Q. Would the adoption of Ms. Claussen’s recommendation of a proration of  
242 the 1 ½% late fee for the actual number of days late require an adjustment  
243 in the level of revenue from forfeited discounts in the Company’s filing?

244 A. Yes. Ms. Claussen’s recommendation would reduce the level of revenue  
245 from forfeited discounts included in the Company’s test year filing.  
246 Revenues from forfeited discounts, along with other non-base rate  
247 revenues, are used as an offset to revenue required from the Company’s

base rates. Therefore, Ms. Claussen's recommendation would require an increase in the level of base rate revenue required in this case.

**D. ITEMS OF CLARIFICATION**

24. Q. Does Ms. Claussen make any other statements that warrant clarification?

A. Yes. Ms. Claussen states that the proposed use of the Chicago citygate price as the cashout basis, although a better reflection of the market price as compared to the current cashout basis, may increase costs to CNE-Gas customers. While it is true that the proposed use of the Chicago citygate price may increase costs to CNE-Gas customers, it is equally true that it may decrease their costs unless CNE-Gas deliberately or systemically under- or over-nominates. For example, if CNE-Gas undernominates on behalf of a customer and the Chicago citygate price is less than the current cashout basis, the customer's cashout costs will be less than under the current method. Conversely, if CNE-Gas overnominates on behalf of a customer and the Chicago citygate price is higher than the current cashout basis, the customer's cashout costs will also be less.

Ms. Claussen also states "... CNE-Gas customers (and all customers on IP's system) pay through their rates for the utility to read the meters." It is true that customers pay through their base rates for the utility to read the meters on a monthly or bi-monthly schedule. It is not true that any customer pays the utility through base rates to read meters daily.

**IV. RESPONSE TO CNE-GAS WITNESS MONROE**

- 271 25. Q. Mr. Monroe makes the same or similar recommendations as did his  
272 colleague, Ms. Claussen. Do you have any response?
- 273 A. Yes. My responses would be the same as stated above.
- 274 26. Q. Does Mr. Monroe make any other statements that warrant clarification?
- 275 A. Yes. On lines 87 – 115 of his testimony, Mr. Monroe describes his  
276 understanding of the proposed changes to Rider OT. I believe he is  
277 actually attempting to describe the proposed changes to SC 76. Assuming  
278 Mr. Monroe is actually discussing SC 76, Mr. Monroe explains the  
279 increased costs that SC 76 customers will face under the proposed daily  
280 imbalance provision because of CNE-Gas' current practice to nominate a  
281 "base load" volume instead of a volume that accurately represents the  
282 customer's usage. He complains that actually having to nominate the  
283 volume of gas the customer intends to use (i.e. "peak day volumes") will  
284 result in increased costs. I believe it is worth noting that he is essentially  
285 stating that CNE-Gas deliberately causes imbalances on AmerenIP's  
286 system to avoid costs resulting from nominating accurately.

287 **V. RESPONSE TO IIEC WITNESS MALLINCKRODT**

288 **A. DAILY BALANCING**

- 289 27. Q. Mr. Mallinckrodt claims that there is no reason for daily balancing  
290 requirements. Do you agree?
- 291 A. No. Mr. Mallinckrodt seems to assert that an SC 76 customer has no  
292 obligation whatsoever to make its daily deliveries to the system and its  
293 actual usage consistent. However, if an SC 76 customer's deliveries to

AmerenIP's system and the customer's usage differ significantly, the customer is using balancing resources for which it is not paying. Further, in the absence of daily balancing requirements, an SC 76 customer is also free to capitalize on pricing changes throughout the month, or "game the system" as Staff witness Iannello correctly observes. A daily imbalance mechanism provides a disincentive to SC 76 customers to use system resources for which they are not paying, or to misuse the flexibility of the system.

28. Q. Please explain why an SC 76 customer with daily imbalances is using balancing resources for which it is not paying.

A. This is perhaps most easily demonstrated with a hypothetical example. Assume an SC 76 customer delivers no gas to AmerenIP's system on a given day (i.e. nominates no gas) but uses 1,000 MCF on that same day, and no daily balancing provisions exist. The 1,000 MCF consumed, but not delivered, by the customer must come from somewhere. This gas will be provided by 1) using gas purchased by AmerenIP on behalf of PGA customers (including costs of interstate pipeline capacity incurred to deliver the gas to AmerenIP's citygate), 2) withdrawing gas from storage (or reducing the amount of a scheduled injection into storage), or 3) incurring imbalances on pipelines. In none of these cases is the SC 76 customer paying for the consequences of the SC 76 customer using more gas than it nominated. Instead, other customers are paying for this flexibility by paying for storage in their base rates, by paying premiums



317 for flexibility in gas purchases (as discussed by CNE-Gas witness  
318 Monroe) and interstate pipeline capacity, or by incurring balancing or  
319 overrun penalties through their PGA rates. Further, if the SC 76 customer  
320 delivered (nominated) insufficient supplies on a certain day so that it could  
321 make up the difference later in the month when costs are expected to be  
322 lower, AmerenIP and its PGA customers have been forced to pay a higher  
323 cost for gas.

324 29. Q. But Mr. Mallinckrodt claims that a monthly cashout provision is sufficient  
325 to force an SC 76 customer to keep in balance over the month. Doesn't  
326 the presence of a monthly cashout provision alleviate your concerns?

327 A. No. In my previous hypothetical example, further assume that the SC 76  
328 customer uses 1,000 MCF each day of June. The customer could  
329 nominate no gas for the first 15 days of the month and 2,000 MCF per day  
330 for the last 15 days of the month. The customer has no monthly cashout,  
331 but it has obviously used system flexibility for which it has not paid on  
332 every day of the month, and may have further capitalized on price changes  
333 through the month.

334 30. Q. Mr. Mallinckrodt points to his calculations that SC 76 customers as a  
335 group create daily imbalances of greater than 10% on less than 49% of the  
336 days and create daily imbalances of greater than 25% on less than 11% of  
337 the days as evidence that daily imbalance provisions are not required. Do  
338 you agree?

- 339           A.     No. His calculations actually support the need for daily imbalance  
340                   provisions. First, remember that the imbalances depicted by Mr.  
341                   Mallinckrodt represent net imbalances across all SC 76 customers. The  
342                   fact that the net daily imbalance of all SC 76 customers is greater than  
343                   10% about half the time and is greater than 25% on more than one of  
344                   every ten days is troubling. The incentives currently in SC 76 are  
345                   obviously insufficient to encourage customers to minimize their  
346                   imbalances.
- 347    31.     Q.     Mr. Mallinckrodt recommends that if daily balancing provisions are  
348                   approved, that the daily balancing tiers be expanded from 0-10%, 10-25%,  
349                   and greater than 25% to 0-20%, 20-40%, and greater than 40%. Will  
350                   AmerenIP make the suggested changes?
- 351           A.     No. However, AmerenIP instead proposes to adopt the more liberal daily  
352                   imbalance tiers proposed by Staff witness Iannello which are 0-20% and  
353                   greater than 20%.
- 354    32.     Q.     Mr. Mallinckrodt recommends that the daily cashout penalty percentages  
355                   be changed from 90% and 110% to 95% and 105% for the second tier  
356                   cashouts and from 75% and 125% to 80% and 120% for third tier  
357                   cashouts. Does AmerenIP agree with Mr. Mallinckrodt's proposal?
- 358           A.     No. AmerenIP instead proposes that no daily cashout occur for  
359                   imbalances within the 20% deadband. For imbalances greater than 20%,  
360                   AmerenIP will accept the imbalance penalty percentages proposed by  
361                   Staff witness Iannello of 90% and 110%. AmerenIP's approach can be

viewed as a compromise of Mr. Mallinckrodt's recommended tiers.

AmerenIP's approach offers significantly more flexibility in Mr.

Mallinckrodt's first tier, slightly more potential for penalties in his

second tier, and significantly less potential for penalties in his proposed

third tier.

33. Q. Mr. Mallinckrodt asserts, based on AmerenIP's response to ICC Staff Data Request CCSI 2.01, that AmerenIP does not provide real-time metering information. Is this true?

A. No. Mr. Mallinckrodt is apparently unfamiliar with the metering options discussed in AmerenIP's response to ICC Staff Data Request CCSI 2.01. The first three of four options (manual reads, pulse retransmittal, and remote interrogation) discussed in this response provide data in any timeframe desired, including real-time. AmerenIP's response to ICC Staff Data Request CCSI 2.01 is included as IP Exhibit 8.13.

34. Q. Mr. Mallinckrodt recommends the installation of real-time metering for SC 76 customers. Will AmerenIP provide additional metering equipment and daily usage information?

A. Yes. As discussed earlier, AmerenIP conditionally proposes installing additional metering and communication equipment for all SC 65, SC 66, SC 76, and Rider OT customers and providing daily metering information in a manner consistent with AmerenCIPS and AmerenCILCO. Pulse retransmittal and remote interrogation will still be options to those customers who desire real-time metering information.

**B. FACTOR U**

385

386 35. Q. What is Mr. Mallinckrodt's argument about the current level of Factor U?

387 A. Apparently, Mr. Mallinckrodt's argument is solely that the current Factor  
388 U is higher than he would like. He provides no quantitative or qualitative  
389 support for his position, and he does not argue that there was an error in  
390 the calculation or that the underlying basis for the calculation is wrong.  
391 (See IIEC Ex 1.0, p. 15, ll. 10-12.) Indeed, he argues it should be  
392 "redetermined" but offers no credible alternative.

393 36. Q. Does his argument that the current charge is "too high" have any merit?

394 A. No. First, I am unaware of any objective standard of "too high". Second,  
395 Factor U applies to all of AmerenIP's gas distribution system customers;  
396 to artificially limit Factor U only for transporting customers results in  
397 other non-transporting ratepayers making up the difference.

398 37. Q. Does his proposal to use a three-year average have any merit?

399 A. No. Mr. Mallinckrodt offers no quantitative or qualitative support for  
400 using three years as opposed to some different time period; his proposal is  
401 clearly results driven. Ignoring the one-time effect of such a change, the  
402 amount of losses would be the same over time. Mr. Mallinckrodt's  
403 proposal, in effect, shifts the burden to non-transporting ratepayers until  
404 the current Factor U falls out of the three-year average.

405 38. Q. For what time period does the current Factor U apply?

406 A. The current Factor U applies until December 31, 2004; therefore, a new  
407 Factor U will be in place before the conclusion of this case.

408 39. Q. Has AmerenIP calculated the Factor U that will be applicable beginning  
409 January 1, 2005?

410 A. Yes. It is 1.711%.

411 40. Q. Mr. Mallinckrodt relies on two sets of data for his assertion that the  
412 current Factor U is not supported by historical data. Please comment on  
413 the appropriateness of these data sets.

414 A. One set of data is that reported by AmerenIP to the Department of  
415 Transportation, Office of Pipeline Safety. The other is AmerenIP's Factor  
416 U. The data submitted to the Department of Transportation backs out the  
417 estimated volume of gas burned in AmerenIP's pipeline heaters, as  
418 required by the Department of Transportation's definition of "unaccounted  
419 for gas". This is not the definition used by AmerenIP for ratemaking  
420 purposes.

421 41. Q. Does AmerenIP profit in any way from a higher or lower Factor U?

422 A. No. It is simply a pass through of costs incurred by AmerenIP.

423 **C. DEFINITION OF "THERM"**

424 42. Q. Mr. Mallinckrodt states that AmerenIP "neither uses the traditional  
425 definition of the term 'therm' nor applies it in the normal manner. IP's  
426 definition of therm is not heat-related or Btu based but is a volumetric  
427 measure." Do other Illinois LDCs use a similar definition of "therm"?

428 A. Yes. AmerenCIPS defines "therm" as follows: "A therm for the purpose  
429 of this Schedule is equivalent to 100 cubic feet of natural gas."

430 AmerenCILCO defines "therm" as follows: "Therm generally means 100

cubic feet of natural gas, a measure of the heat content of gas, such that a cubic foot typically contains one thousand British Thermal Units (Btu).” AmerenCILCO further states: “The rates specified in this rate schedule for all classes of service are based on the assumption that the gas being delivered has a heating value of 1,000 Btu per cubic foot....”

43. Q. Is Mr. Mallinckrodt’s observation that there is a mismatch between the Chicago citygate price (in MMBtu) and the delivered volume (in volumetric Therms) correct?

A. Yes. To address this inconsistency, AmerenIP proposes to convert the Chicago citygate price to a comparable price based on the Btu content of gas delivered to AmerenIP’s citygate from Natural Gas Pipeline Company of America. Please see IP Exhibit 8.9 for the proposed changes.

#### **VI. RESPONSE TO IIEC WITNESS ROSENBERG**

44. Q. Dr. Rosenberg recommends implementation of an optional storage service for SC 76 customers. Will AmerenIP implement a service as Dr. Rosenberg suggests?

A. No, for several reasons. One reason is that the Company’s storage is fully utilized to offset fixed pipeline and leased storage costs (i.e. the peaking function), to diversify the pricing of gas passed through the PGA when gas is withdrawn from storage (i.e. the price diversity function), and to absorb imbalances between nominations and actual usage (i.e. the balancing function), for the benefit of PGA customers. To offer an optional storage

453 service to SC 76 customers would divert storage capacity from  
454 AmerenIP's PGA customers.

455 45. Q. Dr. Rosenberg states "Actually, having customer owned gas in storage is  
456 an advantage to IP because it means they have to buy less of their own gas  
457 to fill the storage fields." Does this statement have any merit?

458 A. No. His statement incorrectly implies that AmerenIP fills its fields only  
459 because it has to, not because it provides benefit to AmerenIP's PGA  
460 customers. All gas injected by AmerenIP is used to provide benefit to  
461 AmerenIP's PGA customers. For Dr. Rosenberg to imply that  
462 transportation gas in storage means PGA customers pay less is  
463 misleading.

464 46. Q. Are there other reasons why AmerenIP will not offer an optional storage  
465 service to SC 76 customers?

466 A. Yes. Dr. Rosenberg proposes his optional storage service solely to  
467 mitigate potential balancing costs to SC 76 customers. As previously  
468 discussed, AmerenIP has proposed several changes in response to the  
469 recommendations of Staff and intervenor witnesses in this case.  
470 AmerenIP has committed to implement a supplier aggregation tariff  
471 modeled after AmerenCIPS' Rider G. AmerenIP has expanded the daily  
472 imbalance tolerances and relaxed the proposed penalties, and has proposed  
473 no daily cashout within the 20% deadband. AmerenIP has agreed to  
474 provide daily metering information consistent with the practices of  
475 AmerenCIPS and AmerenCILCO. These proposed revisions mitigate

customers' exposure to balancing costs, so Dr. Rosenberg's concerns that were the basis for his proposal of an optional storage service have been alleviated.

47. Q. In the event the Commission orders the implementation of an optional storage service, is Dr. Rosenberg's proposed service appropriate?

A. No. Dr. Rosenberg's proposal is results-driven and designed so that SC 76 customers will not pay for the costs properly allocated to serve them. Further, his derivation of storage capacity and his cost allocations contain errors and inappropriate assumptions.

48. Q. Please describe Dr. Rosenberg's proposed optional balancing service.

A. Under Dr. Rosenberg's proposal, a customer would elect a Balancing Maximum Quantity (BMQ) in therms per day. The customer could nominate up to 150% of its MDQ (although AmerenIP would continue to have no obligation to deliver more than the customer's MDQ) plus 50% of its BMQ. Further, the customer would be able to use 120% of its nomination plus 75% of its BMQ, although it is not clear whether he intended this withdrawal to be nominated. On critical days, the BMQ would be zero, and the cumulative bank would not be allowed to fall below zero. On October 31 of each year, the customer's cumulative bank would be required to be at or below 500% of the BMQ or the excess would be cashed out. Dr. Rosenberg does not propose a limit on the size of bank that may be accumulated or at what price excess storage bank



would be cashed out on October 31. Dr. Rosenberg proposes a monthly cost of 5 cents per therm of BMQ for his optional storage service.

49. Q. Please explain your assertion that Dr. Rosenberg's proposal is results-driven.

A. Dr. Rosenberg proposes a cost for his optional balancing service of 5 cents per therm of BMQ. AmerenIP's proposed SC 76 Capacity Reservation Charge is 48.46 cents per therm of MDQ for low pressure customers and 15.02 cents per therm of MDQ for high pressure customers.

As an example, assume a low pressure customer with an MDQ of 10,000 therms per day (representing its anticipated peak day usage) and a relatively low load factor. Under AmerenIP's proposed SC 76, this customer's monthly Capacity Reservation Charge would be \$4,846.

<u>MDQ (Therms)</u>	<u>MDQ Charge (\$/Therm)</u>	<u>Monthly Cost</u>
10,000	\$.4846	\$4846

With the addition of Dr. Rosenberg's optional storage service this same customer might elect an MDQ of 7,000 therms per day and a BMQ of 4,000 therms per day. This customer will still be able to use a total of 10,000 therms on all but Critical Days (7,000 therms per day plus 75% of 4,000 therms per day). However, the sum of this customer's reservation charges would be only \$3592.

<u>MDQ/BMQ (Therms)</u>	<u>MDQ/BMQ Charge (\$/Therm)</u>	<u>Monthly Cost</u>
7,000	\$.4846	\$3392
4,000	\$.0500	\$ 200
		\$3592

Obviously, with Dr. Rosenberg's optional storage service, this customer pays far less while receiving very nearly the same level of service it received before. What's more, Dr. Rosenberg suggests that the BMQ monthly revenues be credited to the PGA, further eroding AmerenIP's cost recovery.

50. Q. Would AmerenIP seek to recover this lost revenue through an adjustment to its proposed rates?

A. Yes. AmerenIP would seek to increase the SC 76 Capacity Reservation Charge to ensure adequate cost recovery.

51. Q. Dr. Rosenberg's proposal includes a provision that the BMQ would be zero on Critical Days. Doesn't this alleviate your concern that an SC 76 customer is receiving nearly the same level of service it was without the optional balancing service?

A. No. Many SC 76 customers' peak day loads may not coincide with likely Critical Days. For example, six of AmerenIP's eight largest SC 76 customers are merchant electric generators whose peak day loads may occur during summer electric peak periods when Critical Days are less likely. Another one of the eight largest SC 76 customers uses gas to supplement coal in its cogeneration facility, so its peak day may not coincide only with Critical Days either.

52. Q. Dr. Rosenberg suggests that under his storage proposal a customer could nominate 150% of its MDQ and nominate injections of 50% of its BMQ. Please comment.

546 A. Dr. Rosenberg has presented an optional storage service as a means to  
547 mitigate potential imbalances. However, since he proposes that a  
548 customer nominate its injections into the optional storage service, I fail to  
549 see how this would mitigate the level of daily imbalance at all.

550 53. Q. Dr. Rosenberg claims that an SC 76 customer should be able to inject 50%  
551 of its BMQ. Please comment on his derivation of this figure.

552 A. Dr. Rosenberg first asserts that, even in the absence of other factors, a  
553 customer should be able to inject 22% of its BMQ. He reaches this figure  
554 by dividing AmerenIP's maximum injection capability of 143,000  
555 MCF/day by the peak day allocator of 649,976 MCF. However, even if  
556 this were an appropriate approach, which it is not, he chose the wrong  
557 denominator. The peak day allocator represents only the peak day sales  
558 volumes and excludes SC 76 and SC 90 volumes. Including these  
559 volumes raises the denominator to 778,098 MCF and decreases the  
560 resulting injection percentage to 18%.

561 More importantly, Dr. Rosenberg chose to pair the maximum  
562 injection capacity into empty storage fields (which cannot be maintained  
563 over the course of the injection season) in the summer with a peak day  
564 consumption (which is not representative of typical throughput) in the  
565 winter. This relationship does not represent the typical injection capability  
566 on AmerenIP's system throughout the year.

567 Dr. Rosenberg then arbitrarily determined that, because of  
568 "diversity", his incorrectly derived 22% should be inflated to 50%. On

any given day, one cannot assume that any diversity will exist, let alone enough to justify more than doubling his perceived entitlement. Indeed, one might reasonably expect most if not all customers to withdraw or inject similarly since they face the same prevailing weather and market conditions. With the addition of AmerenIP's proposed supplier aggregation service, this possibility is enhanced because nominations and imbalances will be controlled by fewer entities.

54. Q. Dr. Rosenberg similarly contends that an SC 76 customer should be able to withdraw 75% of its BMQ. Please comment on his derivation of this percentage.

A. Dr. Rosenberg first calculates a withdrawal entitlement of 52% based on dividing AmerenIP's maximum withdrawal capacity by the peak day allocator. As with his injection calculation, he incorrectly excludes SC 76 or SC 90 peak day volumes in his denominator. Inclusion of these volumes results in a reduction of his withdrawal percentage from 52% to 44%.

Again, Dr. Rosenberg uses peak day numbers that do not represent the typical withdrawal capability of AmerenIP's system. His proposed ratio of peak day numbers cannot be maintained over the course of the year.

Also, Dr. Rosenberg arbitrarily decides that because of "diversity" his incorrectly derived 52% should be inflated to 75%. Again, it is not reasonable to expect significant diversity in the behavior of a potentially

few nominating entities who are all responding to similar weather and market conditions.

55. Q. Dr. Rosenberg states that his proposal to require the storage bank to be less than or equal to 5 times the BMQ each October 31 will prevent this storage from becoming a seasonal hedging service. Do you agree?

A. No. It may prevent a nominating entity from building an inventory prior to October 31 and withdrawing it in the subsequent winter season. However, this date represents only one opportunity to arbitrage gas prices. Price differences occur throughout the year and marketers, particularly in the absence of any limit on the size of the storage bank, can be expected to capitalize on such opportunities. Five cents per therm of BMQ per month (Dr. Rosenberg's proposed charge) is equivalent to only about \$0.016 per MMBtu per month. The November 23, 2004 closing NYMEX futures prices were as follows:

<u>Month</u>	<u>Price per MMBtu</u>
December, 2004	\$6.793
January, 2005	\$7.621
February, 2005	\$7.731
March, 2005	\$7.536
April, 2005	\$6.741
May, 2005	\$6.601
June, 2005	\$6.636
July, 2005	\$6.671
August, 2005	\$6.691
September, 2005	\$6.671
October, 2005	\$6.694
November, 2005	\$6.975

In seven of the eleven months with subsequent months listed, the subsequent months' price is more than \$0.016 greater than the preceding

month, allowing a supplier to profitably inject gas into storage and withdraw it the following month. Dr. Rosenberg's restriction on the level of the October 31 storage bank addresses only one of these monthly opportunities. Similar arbitrage opportunities exist in other timeframes as well.

56. Q. Dr. Rosenberg asserts the full cost of storage is 20 cents per therm per month of MDQ. He then claims that this charge should be reduced by 75%. Please comment.

A. Dr. Rosenberg suggests that, because his proposed optional storage service is strictly for balancing, those customers electing this service will not receive the full value of the storage. To compensate for one "unused" component of storage he arbitrarily reduces the cost by half and then by half again to compensate for the other "unused" component. Even if this approach is appropriate, which it is not, Dr. Rosenberg provides no support for the subsequent halving of the cost.

More importantly, he is suggesting that storage capacity be taken from PGA customers, who pay the full cost of storage, and given to customers of his optional storage service who will only pay 25% of the cost of storage. A consumer should not be entitled to a good or service at its own perception of its value; a customer should pay the going rate or forego it to others who may realize its full value.

## **VII. PROPOSED TIMING**

644 57. Q. When does AmerenIP propose to implement the proposed changes you  
645 have discussed in this testimony?

646 A. AmerenIP proposes two sets of tariffs with different effective dates.  
647 Specifically, AmerenIP proposes Standard Terms and Conditions, SC 51,  
648 SC 63, SC 64, SC 65, SC 67, SC 68, SC 76 and Rider OT to be effective  
649 as normally ordered by the Commission at the conclusion of this case.  
650 AmerenIP further proposes a Table of Contents, revised Standard Terms  
651 and Conditions, and revised SC 65, SC 66, SC 76, Rider A, Rider B, Rider  
652 H and Rider OT with a requested effective date coincident with the date  
653 on which AmerenP's customer billing system is converted to Ameren's  
654 Customer Service System (CSS) and related systems (system conversion  
655 date). AmerenIP further proposes to cancel SC 67 and SC 68 coincident  
656 with the system conversion date (to be replaced by SC 66).

657 58. Q. What are the primary differences between the two sets of proposed tariffs?

658 A. The first set of tariffs, proposed to be effective as normally ordered by the  
659 Commission at the conclusion of this case, updates the charges and  
660 terminology in the Standard Terms and Conditions, SC 51, SC 63, SC 64,  
661 SC 65, SC 67, SC 68, SC 76 and Rider OT. The SC 76 in this set further  
662 eliminates Firm Gas Service. As discussed by AmerenIP witness Jones,  
663 the updated Facilities Charge (formerly filed as the Electronic Metering  
664 Equipment Fee) for SC 65, SC 68, SC 76 and Rider OT in this set of  
665 tariffs does not include the incremental cost of the proposed additional  
666 metering and communications facilities and will drop to \$18.50 per month.

Further, the proposed SC 76 and Rider OT in this set of tariffs do not reflect the proposed changes to the balancing provisions or the CDIC. Please see IP Exhibit 8.7 for the first set of proposed tariffs.

The second set of tariffs, proposed to be effective coincident with the system conversion date, includes the proposed SC 66. It also includes the Table of Contents, Standard Terms and Conditions, Rider A, Rider B and Rider H with references updated to include the proposed SC 66. As discussed by AmerenIP witness Jones, the updated Facilities Charge (formerly filed as the Electronic Metering Equipment Fee) proposed in SC 65, SC 76 and Rider OT in this second set of tariffs includes the incremental costs of the proposed additional metering and communication facilities and will become \$44.00 per month. The proposed SC 76 and Rider OT in this set also include the revised proposed balancing provisions as well as the Critical Day Imbalance Charge. Please see IP Exhibit 8.9 for the second set of proposed tariffs.

59. Q. What is AmerenIP's anticipated system conversion date?

A. Ameren is currently in the midst of converting AmerenIP's Customer Information System (CIS) to the other Ameren operating companies' CSS and related systems. This conversion includes the billing functionality and the gas transportation functionality of these systems. The date of this conversion is currently expected to be September 16, 2005.



688 60. Q. Why does AmerenIP wish to delay the implementation of SC 66, the  
689 proposed changes to the balancing provisions of SC 76 and Rider OT, and  
690 the CDIC until the system conversion date?

691 A. There will not be sufficient time to implement the proposed supplier  
692 aggregation tariff described by Ms. Anderson and to install all of the  
693 proposed metering and communication equipment following the  
694 Commission's order and before the otherwise likely effective date of the  
695 proposed tariffs (e.g. five business days after the Order date). Second, to  
696 attempt to accommodate the significant contemplated changes in  
697 AmerenIP's existing CIS system when it is known that this system will be  
698 abandoned within a few months does not seem an efficient use of time and  
699 resources.

700 61. Q. Does this conclude your prepared rebuttal testimony?

701 A. Yes, it does.